

Village of Richfield

Investment Policy

1.0 PURPOSE:

The purpose of these investment guidelines is to formalize the framework for the Village's daily investment activities to include scope, objectives, authority, standards of prudence, authorized institutions, investment type, collateralization and diversification. The guidelines are intended to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

2.0 SCOPE:

This Policy applies to all financial assets of The Village of Richfield under the direct management of the Investment Officer, with the following exceptions:

- 2.1 Funds set aside to decrease Village debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this Policy.
- 2.2 Should bond covenants be more restrictive than this Policy, funds will be invested in full compliance with those restrictions.
- 2.3 Pooling of Funds - Except for cash in certain restricted and special funds, the Village may consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- 2.4 The financial assets covered by this Policy are accounted for in the Village's Comprehensive Annual Financial Report.

3.0 GENERAL OBJECTIVES:

The primary objectives, in order of priority, of all investment activities involving the financial assets of the Village of Richfield shall be the following:

- 3.1 **Safety:** Safety and preservation of principal in the overall portfolio is the foremost investment objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall

portfolio. The objective will be to mitigate credit risk and interest rate risk.

- 3.2 Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
 - 3.3 Return: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of tertiary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
 - 3.3.1 A security with declining credit may be sold early to minimize loss of principal.
 - 3.3.2 A security which would improve the quality, yield, or target duration in the portfolio.
 - 3.3.3 Liquidity needs of the Village require that the security be sold.
 - 3.4 Local Considerations: Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The Village may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for local community development projects.
- 4.0 STANDARDS OF CARE:
- 4.1 Prudence: The standard of prudence to be used by investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the

probable safety of their capital as well as the probable income to be derived."

- 4.2 Ethics and Conflicts of Interest: Investment officers and their immediate family involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officers and immediate family involved in the investment process shall disclose any material interests (Cash or Investments greater than \$100,000. Loans greater than \$250,000) in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Village. All disclosures should be made to the Village Board.
 - 4.3 Delegation of Authority: Authority to manage the Village's investment program is derived from State of Wisconsin Statutes and Village ordinances. The Administrator/Treasurer or designee is the investment officer and is responsible for investment decisions and activities. The Administrator/Treasurer shall be responsible for all transactions undertaken, and shall establish investment procedures consistent with this policy, and a system of controls to regulate the activities of subordinate officials and employees.
- 5.0 AUTHORIZED INSTITUTIONS:
- 5.1 All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as applicable to the type of investment:
 - 5.1.1 Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
 - 5.1.2 Proof of state registration
 - 5.1.3 Certification of having read and understood and agreeing to comply with the Village's investment policy
 - 5.1.4 Evidence of adequate insurance coverage (i.e. Securities Investor Protection Corporation (SPIC), Federal Deposit Insurance Corporation (FDIC), etc.)
 - 5.2 The Investment Officer shall select and maintain a list of financial institutions authorized to be public depositories and/or provide investment

services. In addition, a list of approved security broker/dealers will be maintained. The Investment Officer shall qualify institutions by applying generally accepted industry standards (i.e. capital requirements, asset quality, earnings, liquidity, management, and local community development) using available public agency and private rating services as appropriate. An annual review of the financial condition and applicable certifications and/or registrations of all qualified institutions shall be conducted.

6.0 SAFEKEEPING:

6.1 Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

6.2 Safekeeping

Securities will be held by a independent third party custodian selected by the Village as evidenced by safekeeping receipts in the Village's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70 (SAS70)).

7.0 SUITABLE AND AUTHORIZED INVESTMENTS:

7.1 Investment Types: The investment of Village funds shall be in accordance with Wisconsin statutes section 66.0603 (see excerpt attached as Exhibit A), further limited as follows:

7.1.1 Government Bonds and Securities

Village funds may be invested in United States government bonds or securities with maturities less than ten years from the date of investment. Such investment may also include securities of open-end management investment companies (as further defined in Wisconsin statutes), without limitation to maturity of the underlying investments in the investment portfolio,

7.1.2 Repurchase Agreements

Village funds may be invested in repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities and the Village of Richfield takes delivery of the collateral either directly or through an authorized custodian. The Village shall be informed of the specific collateral and investments in repurchase agreements shall be collateralized at 102% of the value of the Village's investment.

- 7.1.3 Direct obligations of a public depository insured by the Federal Deposit Insurance Corporation (FDIC)
Interest bearing savings or checking accounts, interest bearing certificates of deposit, interest bearing time deposits or any other similar investment constituting direct obligations of a public depository which is insured by the FDIC.
 - 7.1.4 Local Government Investment Pools
Local government investment pools, either administered by the State of Wisconsin or through joint powers statutes and other intergovernmental agreement legislation.
 - 7.1.5 Prohibited Investments: In addition to the limitations on investment types according to Wisconsin statutes, Village funds will not be invested in derivative type investments such as collateralized mortgage obligations. Certain types of such investments may qualify under state statute but are not deemed appropriate for use by the Village of Richfield.
- 7.2 Collateralization: All Village funds held in Village Depositories which are not held in investment securities registered in the name of the Village shall to the extent they exceed federal deposit insurance and state public deposit security fund coverage limits, be collateralized as provided in this section. Full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. Where practicable, collateral shall be held by the Village or an independent third party custodian with whom the Village has a current custodian agreement. Where this is not practicable, verifiable evidence of specific pledged securities must be supplied to the Village.

8.0 INVESTMENT PARAMETERS

- 8.1 Diversification: It is the policy of the Village to diversify its investments to the best of its ability based on the types of funds invested and the cash flow needs of the Village.

The investment portfolio for the Village shall not exceed the following diversification limits unless specifically authorized by the Village Board:

- 8.1.1 No financial institution shall hold more than 40% of the Village's investment portfolio, exclusive of U.S. Treasury securities in safekeeping.
- 8.1.2 Monies deposited at a financial institution shall not exceed 25% of the capital stock and surplus of that institution.
- 8.1.3 Deposits in any one public investment pool shall not exceed 50% of the Village's investment portfolio.

- 8.2 Maximum Maturities: To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than five years from the date of purchase.

Reserved funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Any intent to invest in securities with longer maturities will be reported to the Village Board.

- 8.3 Performance Standards: The Village's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the average return on three-month U.S. Treasury bills, the state investment pool or the average rate on Fed funds, whichever is higher. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

9.0 REPORTING

The Investment officer or designee shall submit a monthly investment report to the Village Board. The report shall summarize securities held, investment transactions that occurred during the reporting period, and shall discuss the current portfolio in terms of maturity, rates of return, and other features.

10.0 POLICY CONSIDERATIONS

- 10.1 Exemption: Any investment currently held that does not meet the guidelines of this Policy shall be exempted from the requirements of this investment policy. At maturity or liquidation, such monies shall be reinvested only as provided by this investment policy.

- 10.2 Adoption and Amendments: The Village's investment policy shall be adopted by resolution of the Village Board and will replace previous investment policies adopted by the Village Board. In the event that any state or federal legislation or regulation should further restrict instruments, institutions or procedures authorized by this Policy, such restrictions shall be deemed to be immediately incorporated in this Policy. If new legislation or regulation should liberalize the permitted instruments, institutions or procedures, such changes shall be

available and included in this Policy only after written notification to the Village Board and their subsequent approval of said changes.
The Investment officer shall review this Policy on as needed basis and the Village Board should approve any modifications made thereto.

11.0 LIST OF ATTACHMENTS

11.1 “Exhibit A” – Wis. Stats. 66.0603